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SUBJECT: SECRETARY CHAO'S MEETINGS WITH GOL OFFICIALS

11. (SBU) Summary: Secretary of Labor Elaine L. Chao's visit to Latvia provided an opportunity to discuss economic growth and job creation, relations with Russia and the recent Latvian elections

with senior governmental officials. All interlocutors noted the challenge for Latvia of the out migration of workers to Ireland, the UK and Sweden, especially nurses and people in the construction trade. All believed that Latvian-Russian relations were slowly improving, although President Vike-Freiberga expressed great concern over the current tensions between Russia and Georgia. The Prime Minister and President both said the election results were a sign of political stability in Latvia, although the President said she would consult with party leaders the week of October 16 before deciding to whom she would offer the opportunity to form government. Comment: While protecting her constitutional prerogatives, we heard nothing from the President to indicate that she would not tap PM Kalvitis to remain in office. End summary and comment.

12. (U) Secretary of Labor Elaine L. Chao visited Latvia October 10 - 113. On October 11, she held meetings with senior GOL officials including President Vaira Vike-Freiberga, Prime Minister Aigars Kalvitis, and Speaker of Parliament Ingrida Udre. The Prime Minister also hosted a lunch which included Defense Minister Atis Slakteris, Culture Minister Helena Demakova, and Economics Minister Aigars Stokenbergs. Latvian Ambassador to the United States Maris Riekstins joined all meetings. Ambassador Bailey, DOL Associate Deputy Secretary Laura Genero and DOL A/S for Public Affairs Randy Clerihue joined for all meetings. Pol./econ officers served as notetakers. IN all of her meetings, the Secretary reflected on the large amount of positive change in Latvia since her visit in 1992 to sign the Peace Corps country agreement.

Speaker of Parliament Ingrida Udre

13. (U) Secretary Chao's meeting with Speaker Udre and other guests from the Saima (parliament) included discussion of job creation and social policy; and Latvian-Russian relations. Chairperson of the Parliamentary Committee for Social and Employment Affairs Yevgenia Stalidzane mentioned that there were a number of social problems in Latvia resulting from the transition from socialism to capitalism, such as the difficult economic situation faced by pensioners and the disabled, as well as the lack of quality care in the health care system. Speaker Udre explained that pensioners are unhappy because reforms have introduced a uniform pension amount, irrespective of the number of years a worker has worked. However, pensions are raised on a regular basis, indexed according to the rate of inflation.

14. (U) Secretary Chao asked about Latvia's labor market, and how it was dealing with outflow of workers to other EU countries. Speaker Udre mentioned that most Latvian worker emigrants have gone to Ireland, the UK and Sweden. They are not only working in low-skilled jobs; some have found work in highly skilled fields as well. Udre said the best solution to labor emigration was to raise wages and salaries in Latvia, reduce personal income tax rates, and

in general, adopt policies that will increase the standard of living. She was confident that most Latvians will return to Latvia if these conditions are met. Unemployment remains a problem in Latvia, with much higher rates outside of Riga. The main problem is lack of training and education. People do not have the skills necessary for obtaining employment in a rapidly changing economy. Government employment policy should focus on providing youth and other persons with practical job skills. EU funds will greatly assist Latvia in meeting these goals. Speaker Udre also mentioned a new government policy, "People in the Center of Life," which will focus on building a knowledge-based economy and society.

15. (U) Commenting on Latvian-Russian relations, Udre said that they are becoming more constructive and pragmatic. Russia is potentially a huge market for Latvian goods and services. But it is also apparent that Russia still seeks to maintain control over the former Soviet Republics, and that it has never fully accepted the fact of the Baltic States' independence. Nevertheless, Speaker Udre felt that Latvia is a natural partner for Russia, due to a common history and Latvian's knowledge of the Russian language. She hoped that the border treaty could be concluded once the new Latvian government has been confirmed by a parliamentary vote-of-confidence.

Prime Minister Aigars Kalvitis

16. (U) The Secretary stressed President Bush's respect for Latvia and its people, and our country's gratitude for Latvia's support in the war on terror. The President looks forward to expressing his personal thanks when he visits in November for the NATO summit. The PM expressed appreciation for the recent allocation of additional FMF funds for Latvia and for US assistance with the Riga Freeport. He underscored the importance of the bilateral relationship, noting that the economics minister had recently had a very successful visit to the US. On military deployments, he reported that the parliament had recently extended the mandate for Latvian troops in ISAF in Afghanistan for one year and he said he expected no problems with the December vote to extend the mandate for Latvian troops in Iraq. The Latvian people, he explained, understand the need for collective security. Latvia's hosting of the NATO summit will put in on the world stage for a few days, he added.

17. (U) PM Kalvitis turned to the issue of visas, saying that getting into the visa waiver program (VWP) was "key" for Latvia and that he hoped they could enter the program in "the next couple of years," adding that this was important for the people of Latvia. The Secretary, noting that the U.S. is a nation of immigrants, stressed

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President Bush's interest to address the situation through use of the roadmap. Acknowledging the Latvian's patience on this issue, stressed the Embassy's active engagement with the roadmap process. The PM underscored that Latvians are not looking to immigrate -- they are needed here -- but said that they do like to travel and the US is a preferred destination.

18. (U) The PM noted that Latvia wants to share its success in making political and economic reforms with countries like Moldova, Georgia and Ukraine. Latvia feels a responsibility and hopes to work closely with both the EU and the US in these areas. The secretary asked about the state of Latvian-Russian relations and the PM reported that he was focused on building constructive relations to overcome a "difficult history" and noted the two agreements on economic and political cooperation to be signed October 13 in Moscow as a sign that Latvia was ready to "move forward" on the bilateral relationship. Noting difficulties in Georgia, Moldova, and Ukraine with Russia, Kalvitis said he believed Moscow understood that the Baltic states were out of its control or influence. Internally in Russia, the PM thought that Putin has "forced control" on the country but wondered whether it could last past his term in office. The Russian economy is not competitive in a global market, the government pays little or no attention to infrastructure and social issues and many of the best and brightest are leaving.

19. (U) Returning to the issue of the Riga freeport, the Secretary urged the PM to implement the recommendation in the USG assessment of the port. The PM expressed his appreciation to the US for the report and TDA grant for technical assistance and said the port was

one of the issues on which there was "some work left to do" after elections. He stressed his belief that the port needed to be developed in a way that transparently contributes to economic development in Latvia.

Lunch w/PM and Ministers

¶10. (SBU) Over lunch, the Secretary, PM and other ministers talked about the recent elections. Secretary Chao noted that Latvia's elections were a model for other emerging democracies. All of the Latvian officials were members of the People's Party, which won the largest number of seats in the new parliament. The PM explained that because of Latvia's strict campaign spending limits for parties, a number of "NGO's" had sprung up to advocate for parties. He fully acknowledged that People's Party had benefited from such organizations, but stressed that these were not direct campaign ads and fully legal under Latvia's campaign finance laws. Kalvitis said that the new parliament should reconsider the campaign financing laws to eliminate spending caps but instead focus on transparency in contributions. Secretary Chao noted that these are many of the same issues the US faces in addressing campaign financing.

¶11. (SBU) Asked about the campaign, PM said it was amore muted campaign, due in large part to the spending restrictions. Econ ministers Stokenbergs noted that although People's Party only has about 5000 members, they received over 177000 votes, the most by any one party. The ministers all attributed the party's success to being seen as a party that governs fairly and delivers results. MOD Slakteris, who is also chairman of the party, said their leaders are viewed as being smart and having vision for the country. The PM stressed that the party had not lost touch with the people, saying, "People know I can meet at NATO or deal with Putin, but I can also still milk a cow -- they know we are regular people."

¶12. (U) Asked about the change to an all volunteer military force, Slakteris said it was an important break from the conscription of Soviet times and that they were doing well in recruiting people for the military. He said service in missions like Afghanistan and Iraq was sought out by the troops because there is a perception in the military that those who have not gone are "not real soldiers." At the same time, he acknowledged the difficult situation on the ground in Iraq, but said he liked the new defense minister. Slaketriss did not think that the Iraq deployment had been an issue in the elections.

President Vike-Freiberga

¶13. (U) The Secretary congratulated the President on her strong showing in the race for UN Secretary General, especially given that some of the candidates had been in the race for nearly two years. It helped put Latvia on the map and highlighted the very positive story Latvia has to tell the world. The President said she was proud of what she had achieved, especially given that Russia and China were so committed to the idea of it being "Asia's turn." She added that a longer, more intensive campaign would have required her to shirk some of her presidential duties, which she was unwilling to do.

¶14. (SBU) The President, while carefully guarding her role in choosing the next Prime Minister, was upbeat about the elections ni that they showed political stability in Latvia. She drew a contrast to difficulties in Poland and the Czech Republic, and wide swings in government policy following elections in Slovakia and Sweden. The president said she would begin consultation with the parties the week of October 16 before offering someone the opportunity to form government, but she said, "there is likely to be real continuity."

¶15. (SBU) Turning to foreign policy, the President reported that there had been a meeting of the Latvian national security council earlier in the day and that she was satisfied that Latvia was ready for the security challenges of hosting the NATO summit. She expressed great concern about recent Russian actions toward Georgia, saying she hoped the EU would issue a strong statement at the October 16 - 17 GAERC on the issue. While noting that the Georgians probably went too far with the arrests of the Russian officers, the Russians had completely overreacted and she hoped the EU statement would reflect that. She called the registration of Georgian

students in Russian schools "pure racism" and drew a direct parallel between deportations of Georgians to Soviet deportations of Latvians to the Gulag.

¶16. (U) On social and economic issues, the President expressed great concern for people who "unfairly pay the cost of our transition", mainly artists and scientists who were well treated in Soviet days but haven't done as well in a market economy. She expressed a hope that the government would raise the pension rates for these people and other retirees. The President also spoke about efforts to build on the 2004 Riga Women's Business Leaders' summit by noting that an informal mentoring network has developed among women business leaders in Latvia. The President also noted the challenges of retraining older members of the work force to be competitive in the modern economy. Her husband, who joined for dinner, explained his involvement with a group that provides eight hours of basic computer and internet training for free, noting that the oldest graduate was ¶91. The Secretary applauded all these initiatives.

¶17. (U) The Secretary's party cleared this cable.

Bailey